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ANNUAL REPORT

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1988 - 1989)

90-04381/

Established by an Act of the Provincial Legislature in June, 1969, the Provincial Lending Authority provides capital and operating credit to the primary producers of the Province, particularly those of smaller size, which may reasonably be expected to prove successful but which are unable to obtain financing elsewhere on reasonable terms and conditions.

PRINCE EDWARD ISLAND LENDING AUTHORITY

Post Office Box 1420

Confederation Court Office Tower

134 Kent Street

Charlottetown, P.E.I.

C1A 7N1

prince edward island
lending authority

A CROWN CORPORATION
EST. 1969

TEL: (902) 892-4247 - KENT PLACE - 134 KENT ST., P.O. BOX 1420, CHARLOTTETOWN, P.E.I., CANADA, C1A-7N1

LETTER OF TRANSMITTAL

July 11, 1989

The Honourable Gilbert R. Clements
Minister Responsible for the Lending Authority
Walter R. Shaw Building
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Honourable Sir:

It is our pleasure to submit as required by the Prince Edward Island Lending Authority Act the Annual Report of the Lending Authority for the fiscal year ended March 31, 1989.

Respectfully submitted,

Peggy M. Coady

Ms. Peggy M. Coady
Chairman

CORPORATE DIRECTORY
AS OF MARCH 31, 1989

EXECUTIVE

Ms. Peggy M. Coady
Chairman of the Board
Small Business, Charlottetown

Everett MacFarlane
Vice-Chairman
Tourism, Charlottetown

* **William M. Jay**
Secretary-Treasurer and
General Manager

MEMBERS OF THE BOARD

Clayton Bulpitt
Roseneath
Agriculture

Daniel MacLean
Tyne Valley
Agriculture

Wayne Harris
Murray Harbour
Fisheries

Warren Ellis
Mount Royal
Agriculture

Sheldon Hume
Murray Harbour
Member-At-Large

H.L. Palmer
General Manager
Land Development Corporation

Douglas Johnston
Deputy Minister
Department of Fisheries

Ms. Dale Dewar
Deputy Minister
Department of Agriculture

W.P. MacDougall, C.A.
Deputy Minister
Department of Finance

* **Non Voting**

CORPORATE PROFILE

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1988 - 1989)

The Prince Edward Island Lending Authority is empowered to make loans to approved applicants in the following sectors:

AGRICULTURE

- to provide Operating Credit to farmers required to meet annual cropping expenses such as payment for seed, fertilizer, spray materials, fuels, repairs to machinery, labour, etc. This type of credit is repayable in full upon sale of the crop.
- to provide funds for the purchase of livestock as follows:

  for beef cows — loans may be obtained for five years repayable in annual instalments; the first payment being interest only, interest plus principal for the remainder of the term.

  for feeder cattle — the full amount of the loan obtained will be due when the cattle are sold, but in no case longer than a period of eighteen months;

  for dairy cows — loans may be obtained for a period up to five years and be repayable in monthly or annual instalments;

  for breeding ewes — loans may be obtained for a four year period repayable in annual instalments;

  for sows — may be obtained for a three year period repayable in semi-annual or annual instalments;

  for feeder hogs — the full amount of the loan will be due when the hogs are marketed.
- to provide Capital Loans for the purchase of farm lands, for recapitalization of debt, and for farm equipment, storage facilities, erection and/or repairs to barns, land improvements, etc. Maximum term up to 30 years.

FISHERIES AND AQUACULTURE

- to provide Operating Credit to assist seasonal preparation costs prior to the start of the fishing season. These advances are repayable during or at the end of the fishing season, and in Aquaculture not later than 24 months after the date on which the credit was granted.
- to provide Capital Loans for the purchase of vessels, engines, and related equipment, etc. Maximum term on new vessels is fifteen years.

TOURISM

- to provide Operating Credit to assist in seasonal preparation costs prior to the start of the tourist season. These advances are repayable in full during or at the end of the tourist season.
- to provide Capital Loans for the establishment of and/or expansion of tourist facilities, or for the acquisition of existing facilities and for consolidation of existing debt. Maximum term up to 30 years.

SMALL BUSINESS

- to provide Capital Loans to Small Business for such purposes as debt consolidation, expansion, refurbishing, purchase of fixed assets, etc. Maximum loan limit $350,000. Loans extended under this sector must be secured by a first real property mortgage, or a first fixed charge debenture. Application fee of $150.00 which is non refundable is applicable.
- for the purpose of this loan program small business is defined as a person, partnership or corporation having not more than 100 employees and annual gross sales of not more than 5 million in the preceding fiscal year.
- applicants must be based in the Province and in the case of corporations incorporated under the Companies Act of Prince Edward Island.

EXCLUDED

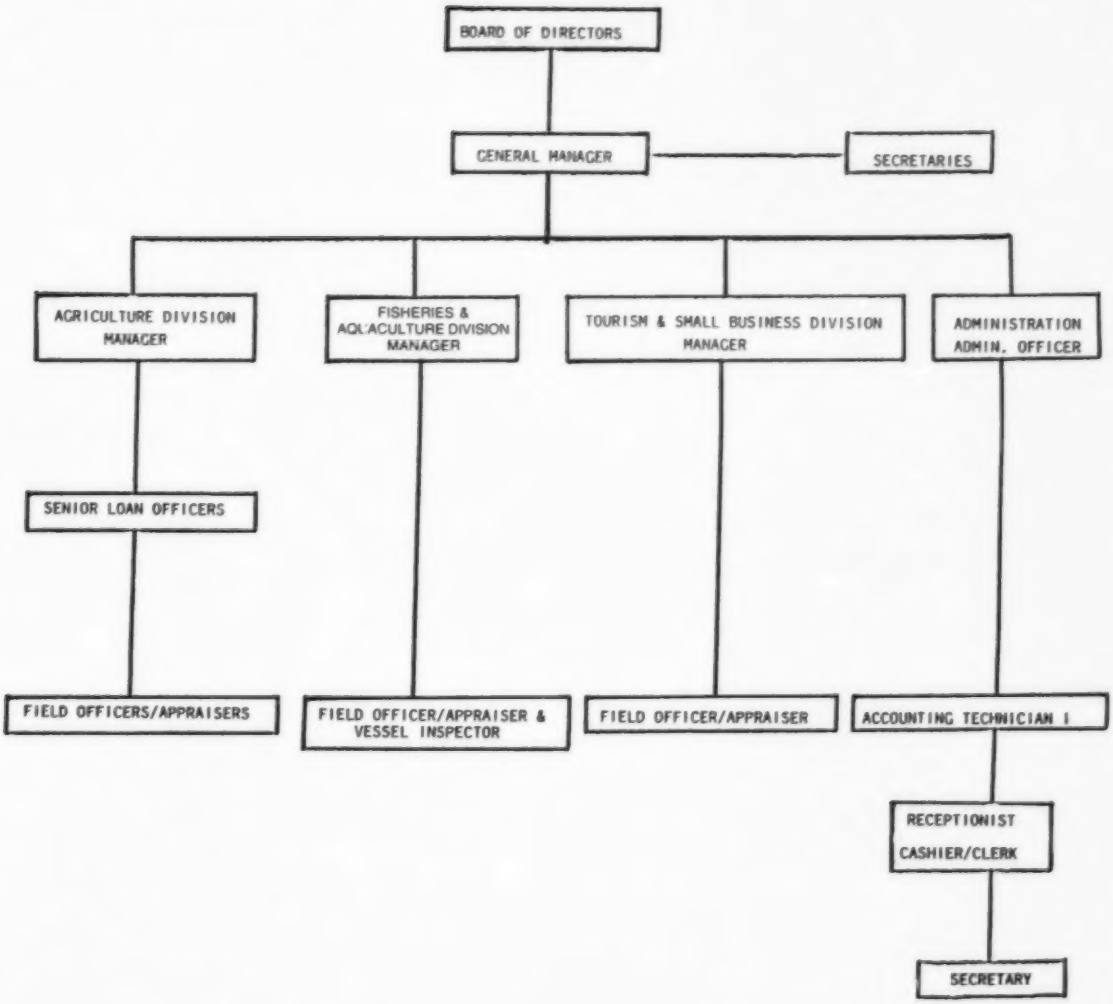
- non resident persons or partnerships, companies not incorporated in the Province, franchised owned operations, licensees, apartment rental operators, manufacturers and processors.

INTEREST RATES

- interest rates on Capital Loans and Operating Credit will be determined from time to time and will be based on the cost of money to the Lending Authority.

ORGANIZATIONAL CHART

PRINCE EDWARD ISLAND LENDING AUTHORITY



REVIEW

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1988 - 1989)

The Lending Authority, which was established in 1969 as a Crown Corporation and which commenced operation in April, 1970, was designed to assist farmers, fisherman, tourist operators and small business persons in the province, particularly those operating on the small to medium scale to obtain financing, on reasonable terms and conditions which would not normally be available from other sources.

It is generally agreed that the economic well-being of the province depends, to a large extent, on the continued growth of our primary industries. In assisting primary producers and small business persons, the Lending Authority is fulfilling an important role and is one of the economic vehicles that assist in this much needed and continued growth.

The Lending Authority's activity, inter-alia, includes administration of the loan portfolios of the lending agencies of the Government of Prince Edward Island existing prior to April, 1970.

The Authority, now in its twentieth year of operation, has been accepted by the persons it was established to assist and by the business community as a whole, and it is evident that it will continue to play an ever increasing role in the future economic development of the province through its lending programs.

ANNUAL REPORT OF THE GENERAL MANAGER

It is indeed a pleasure for me to present this, my 20th, Annual Report as General Manager. This year must be considered a milestone as the Lending Authority marks its 20th year of service to the primary industries in Prince Edward Island.

While applications received during the past fiscal year declined from the previous year, nevertheless, the past year was a busy and productive one for all divisions of the Lending Authority as, with a constantly expanding loan portfolio, an ever increasing amount of staff time is consumed in maintenance and required follow up.

A statistical report on applications received in all divisions, and the disposition of those applications will be found on page 10 of this Annual Report. In general, the Authority received and evaluated 311 applications in all divisions for a total value of $25,569,442. This compares to the previous fiscal year when 357 applications were received totalling $31,004,140. The reduction in applications were in the Agricultural and Tourism Divisions. This decrease was not unexpected in that, at the present time there is no major expansion in any of the agricultural commodities. In fact, there has been a number of producers both in the potato and tobacco commodities who have ceased production for various reasons. Expansions in the Tourism Industry slowed after a very busy year in 1987.

As in previous years, we will expand on our report by divisions as follows:

AGRICULTURAL DIVISION

As noted in my general comments, there has been a decrease in loans and credit approved in this division, the total being approximately $1.6 million dollars less than the previous fiscal year. Nevertheless, the total approved of $8,037,567, is a substantial investment in the industry. While there are still many problems facing the agricultural industry across Canada, nevertheless, in our opinion considerable progress was attained during the past year and at the present time the serious delinquency problems of the past several years have now for the most part been overcome.

During the past fiscal year, a number of our farm clients who were experiencing financial difficulty arranged to liquidate their operations by way of "Quit Claim Deeds" to the Lending Authority. In most all of these situations an agreement was reached with the farmer to arrange for the orderly sale of the property and in most cases the farm dwelling was retained by way of purchase or lease by the farmer himself. There were also several foreclosures during the year.

These are unfortunate situations. However, in any business undertaking there will be failures and this must be accepted as part of the ongoing process of doing business.

As indicated in our last year's report, Bad Debts have increased during the year under review but our losses are still relatively small compared to other similar types of lending agencies.

Bad debt losses are unfortunate as they are a charge against the taxpayers of the Province but, they must be accepted as part of the cost of operating a financial institution which for the most part serves high-risk borrowers.

As to the coming fiscal year, we see no major increases in loans and credit to agriculture unless there is a substantial strengthening of farm gate returns and the uncertainty surrounding Commodity Boards with respect to the Free Trade Agreement is rationalized.

FISHERIES AND AQUACULTURE DIVISION

Our Fisheries and Aquaculture Division shows an increase in the amount of loans and credit extended with approximately $5,000,000 being disbursed to 109 fishermen. The loans approved included loans for the construction and/or purchase of 38 new inshore/near shore fishing vessels.

The loan portfolio remains in excellent standing with no vessels having been arrested or any losses incurred during the past fiscal year. The fishing industry remains as our most stable primary industry and providing prices and landings remain firm, we foresee no difficulty in the immediate future in this portfolio. Thirteen applications were approved for persons involved in Aquaculture totalling $525,100.

TOURISM DIVISION

Loans and credit extended in this division during the fiscal year totalled $2,606,900 which is down substantially from the previous fiscal year.

Twenty-five tourist operators took advantage of the Authority's programs during the past fiscal year as compared to fifty-four during the previous year when $4,709,300 was approved in both term loans and operating credit.

The substantial growth in the Tourism Industry over the past several years seems to have subsided and it is significant that the 1988 tourist season from a purely financial point of view was not as successful as in previous years, with a number of operators experiencing difficulty in meeting their annual debt servicing requirements. Further, the Conference Board of Canada is predicting that the Tourism Industry in the Atlantic Provinces will remain "flat" over the next two years. They are suggesting that an entirely new marketing approach must be conceived by the Tourism Industry in the Atlantic Provinces in order to attract more tourists from the Eastern and Mid-Central United States. According to Conference Board statistics only 10% of the tourists who came to the Atlantic Provinces in 1988 were from the New England, Eastern and Central United States which should be the Atlantic Provinces principal market.

There were no foreclosures recorded in this division during the fiscal year and, the portfolio is in good standing with only several loans in arrears of payments as at the end of the fiscal year.

SMALL BUSINESS DIVISION

The Small Business Division received twenty applications of which fourteen were approved in the amount $1.7 million, this is a small increase from the previous year when twelve applications were approved for $1.5 million.

We foresee little, if any, substantial expansion in this division over the next few years. However, despite the small number of applications and the relatively small amount of money extended this division nevertheless, if fulfilling its purpose and there are no plans at this time to phase it out.

There were no foreclosures and no losses experienced in this division during the fiscal year and the portfolio remains in excellent standing.

TO CONCLUDE OUR REPORT, during the past fiscal year notwithstanding an ever-expanding loan portfolio an increased operating costs, we were able to maintain our operations within our allotted budget.

As indicated in my report last year the Authority has commenced computerizing its loan portfolios and we expect this process will be completed by late summer of 1989.

At the last Annual Meeting of the Lending Authority Ms. Peggy Coady of Charlottetown, became Chairman of the Board with Mr. Everett R. MacFarlane also of Charlottetown, remaining as Vice-Chairman. Ms. Coady succeeded Robert H. Minard of Port Hill, Prince County, who retired from the Board due to ill health.

During the past fiscal year there were several changes in the complement of the Board with Mr. Warren Ellis of Mount Royal, Prince County, being named to the Board to replace Mr. William B. Hatton of Marie, Kings County, whose term expired. Mr. Sheldon Hume of Murray Harbour, Kings County, was appointed to the Board to succeed Mr. Minard, who as noted retired because of ill health.

During the year Mr. Hugh Campbell joined our staff as an Agriculture Loans Officer and Ms. Daphne Andrews joined our staff from the Department of Veteran's Affairs, as Secretary to the General Manager. Also, Ms. Elizabeth Macneill joined the staff as Secretary to the Divisional Managers and Ms. Freda Moase joined the staff as Receptionist/Cashier.

In conclusion I am pleased to advise that the management and staff of the Authority continue to enjoy an excellent rapport with the Chairman and Members of the Board and the Minister Responsible, the Hon. Gilbert R. Clements, and also with various departments and agencies, both of the Federal and Provincial Governments, and with the business community at large with whom it must cooperate.

Respectfully submitted,

William M. Jay
General Manager

STATISTICAL INFORMATION

APRIL 1, 1988 — MARCH 31, 1989

(with comparative figures for fiscal 1987/88)

		1987/88		1988/89
Total Number of Applications Received				
Agriculture		149		117
Fisheries & Aquaculture		125		133
Tourism		68		41
Small Business		15		20
		357		311
Total Dollar Value of Applications Received				
Agriculture		14,252,380		10,094,295
Fisheries & Aquaculture		6,571,936		6,362,627
Tourism		8,108,949		6,380,250
Small Business		2,070,875		2,732,270
		31,004,140		25,569,442
Disposition of Applications				
Loan and Credit Offers Approved				
AGRICULTURE	Term Loans	52	2,159,625	46	2,332,025
	Operating Credit	55	7,515,620	40	5,705,542
		107	9,675,245	86	8,037,567
FISHERIES & AQUACULTURE	Term Loans	95	2,462,245	95	2,190,105
	Operating Credit	14	2,133,615	14	2,824,790
		109	4,595,850	109	5,014,895
TOURISM	Term Loans	48	4,590,300	21	2,492,400
	Operating Credit	6	119,000	4	114,500
		54	4,709,300	25	2,606,900
SMALL BUSINESS	Term Loans	12	1,509,500	14	1,690,745
TOTAL APPROVED		282	20,489,905	234	17,350,107
Applications withdrawn or Declined		75	10,514,235	77	8,219,335
TOTAL		357	31,004,140	311	25,569,442

STATEMENT OF INTEREST EARNED — ALL DIVISIONS

FOR THE PERIOD APRIL 1, 1988 — MARCH 31, 1989

Agricultural Loans	1,948,365
Fisheries & Aquaculture Loans	723,679
Tourist Loans	1,924,531
Small Business Loans	970,183
Working Capital Credit	636,800
	6,203,558

STATEMENT OF LOAN PORTFOLIOS ASSUMED

FOR THE PERIOD APRIL 1, 1988 — MARCH 31, 1989

Farm Establishment Board	
Balance March 31, 1988	351,925
Payments Received April 1, 1988 — March 31, 1989	94,392
Balance March 31, 1989	257,534

SCHEDULE OF LOANS APPROVED

APRIL 15/70 — MARCH 31/89

YEAR ENDING	Agriculture Capital	Fisheries & Aquaculture Capital	Tourism Capital	Small Business Capital	Working Capital	TOTAL
March 31/71	13	67	31	2	*156	269
	276,539	145,502	374,960	3,379	1,642,800	2,443,180
March 31/72	13	63	24	12	*131	243
	274,700	144,099	220,548	865,500	1,483,228	2,988,075
March 31/73	47	46	35	3	95	226
	669,564	185,239	901,927	51,145	1,272,435	3,080,310
March 31/74	46	94	20	4	87	251
	463,854	465,092	339,560	606,639	1,591,781	3,466,926
March 31/75	107	107	21	12	245	492
	906,246	365,051	529,189	278,950	2,554,176	4,633,612
March 31/76	44	54	14	12	135	259
	510,255	340,481	375,883	226,469	3,053,306	4,506,394
March 31/77	90	75	20	11	127	323
	905,663	295,978	954,247	619,107	3,782,268	6,557,263
March 31/78	107	69	15	10	93	294
	1,571,843	374,230	564,145	679,030	3,046,371	6,235,619
March 31/79	124	84	19	11	141	379
	1,655,196	910,515	1,119,950	830,067	4,875,293	9,391,021
March 31/80	176	103	27	16	104	426
	4,128,794	1,243,816	1,250,735	545,690	4,873,681	12,042,716
March 31/81	170	76	22	15	111	394
	5,215,462	865,635	1,701,220	900,296	6,691,154	15,364,767
March 31/82	133	102	17	11	71	334
	3,831,035	1,489,457	719,872	734,312	4,687,811	11,462,487
March 31/83	142	128	44	5	90	409
	5,812,452	1,834,025	2,366,520	203,375	7,593,698	17,810,070
March 31/84	145	98	47	46	104	440
	7,688,410	1,485,077	4,390,855	5,956,250	7,768,500	27,289,092
March 31/85	61	78	23	26	67	255
	2,348,829	1,735,672	3,331,050	2,495,845	5,583,535	15,494,931
March 31/86	63	85	34	22	52	256
	2,546,290	1,462,534	4,345,150	2,412,250	6,904,917	17,671,141
March 31/87	73	85	48	16	62	284
	3,564,290	1,861,188	4,822,400	1,574,400	10,068,362	21,891,340
March 31/88	52	95	48	12	75	282
	2,159,625	2,462,245	4,590,300	1,509,500	9,768,235	20,489,905
March 31/89	46	95	21	14	58	234
	2,332,025	2,190,105	2,492,400	1,690,745	8,644,832	17,350,107
TOTAL	1,652	1,604	530	260	2,004	6,050
	46,861,772	19,846,941	35,390,911	22,182,949	95,886,383	220,168,956

STATEMENT OF LOAN FLOW

FOR THE PERIOD APRIL 1, 1988 — MARCH 31, 1989

AGRICULTURE CAPITAL LOANS		
Balance March 31, 1988		20,384,325
Payments Received April 1/88 - March 31/89	4,841,163	
Interest and Disbursements	1,716,578	
Balance March 31, 1989		17,259,740
FISHING & AQUACULTURE CAPITAL LOANS		
Balance March 31, 1988		4,896,733
Payments Received April 1/88 - March 31/89	1,524,737	
Interest and Disbursements	2,962,838	
Balance March 31, 1989		6,334,834
TOURIST CAPITAL LOANS		
Balance March 31, 1988		15,739,881
Payments Received April 1/88 - March 31/89	3,671,556	
Interest and Disbursements	4,912,470	
Balance March 31, 1989		16,980,795
SMALL BUSINESS LOANS		
Balance March 31, 1988		8,405,478
Payments Received April 1/88 - March 31/89	2,635,148	
Interest and Disbursements	2,805,222	
Balance March 31, 1989		8,575,552
WORKING CAPITAL CREDIT-ALL DIVISIONS		
Balance March 31, 1988		3,947,225
Payments Received April 1/88 - March 31/89	8,153,327	
Interest and Disbursements	8,176,268	
Balance March 31, 1989		3,970,166

STATEMENT OF LOANS WRITTEN-OFF AND RECOVERIES

FOR THE PERIOD ENDING MARCH 31, 1989

LOANS WRITTEN-OFF

McCardle Bros. Middleton	180,483
P.E.I. Countpak Ltd. Kinross	384,047
	564,530

RECOVERIES

Edward Gallant North Rustico	400
Byrne Road Farms Morell	3,600
C.F. Willis Produce Ltd. O'Leary	2,810
Terry and Donald MacNeill Clyde River	27,344
J. Bennett MacDonald Mermaid	6,811
	40,965

LOANS APPROVED / CLASSIFIED BY DIVISION AND RANGE

YEAR ENDING MARCH 31, 1989

Range	Agriculture	Fisheries & Aquaculture	Tourism	Small Business	Total
0 - 9,999	7	30	1		38
10,000 - 19,999	17	30	6		53
20,000 - 29,999	15	7		2	24
30,000 - 39,999	7	17		2	26
40,000 - 49,999	5	7	1	1	14
50,000 - 59,999	3	6	3	2	14
60,000 - 69,999	1	3	1	1	6
70,000 - 79,999	2	3	2		7
80,000 - 89,999	5	1		1	7
90,000 - 99,999	9		2		11
100,000 - 199,999	6	1	4	2	13
200,000 - 299,999	4	1	3	1	9
300,000 - 399,999	1		2	2	5
400,000 - 499,999	1				1
500,000 - 599,999	2				2
OVER 600,000	1	3			4
	86	109	25	14	234

COMPARISON OF LOANS APPROVED TO LOANS WRITTEN-OFF

APRIL 15, 1970 — MARCH 31, 1989

Year Ending	Total Loans	Write-Offs	Percent of Total Loans	Recovery
March 31, 1971	2,443,180	—	—	—
March 31, 1972	2,988,075	172,698	5.78	—
March 31, 1973	3,080,310	150,000	4.87	16,928
March 31, 1974	3,466,926	150,425	4.34	18,477
March 31, 1975	4,633,612	56,719	1.22	23,077
March 31, 1976	4,506,394	61,693	1.36	8,801
March 31, 1977	6,557,263	54,125	0.83	38,167
March 31, 1978	6,235,619	50,000	0.08	18,796
March 31, 1979	9,391,021	22,671	0.24	38,048
March 31, 1980	12,042,716	50,000	0.41	13,198
March 31, 1981	15,364,767	18,667	0.12	37,078
March 31, 1982	11,462,487	—	—	2,692
March 31, 1983	17,810,070	14,871	0.08	15,846
March 31, 1984	27,289,092	134,418	0.49	5,363
March 31, 1985	15,494,931	234,593	1.50	22,408
March 31, 1986	17,671,141	395,958	2.24	1,242
March 31, 1987	21,891,340	136,351	0.06	500
March 31, 1988	20,489,905	657,005	3.20	653
March 31, 1989	17,350,107	564,530	3.25	40,965
TOTAL	220,168,956	2,924,724	1.32	302,239

STAFF OF THE PRINCE EDWARD ISLAND LENDING AUTHORITY

AS OF MARCH 31, 1988

ADMINISTRATION

William M. Jay, A.C.I., C.C.E.	—	General Manager
Eric G. Wood	—	Administration Officer

AGRICULTURAL DIVISION

Gerald F. Gahan, M.C.I.	—	Manager
Anne E. Bonnell, B.B.A., M.C.I.	—	Loans Officer II
George G. MacCabe, M.C.I.	—	Loans Officer II
Donald C. Aitken	—	Loans Officer II
Michael F. Bradley, Ag. Tech.	—	Field Officer/Appraisor
J. Kevin Curley, B. Comm., M.C.I.	—	Field Officer/Appraisor
Hugh C. Campbell	—	Field Officer/Appraisor

FISHERIES AND AQUACULTURE DIVISION

D. W. (Dan) Smith, M.C.I.	—	Manager
J. Kenneth MacDonald, M.C.I.	—	Field Officer/Appraisor and Vessel Inspector

TOURISM AND SMALL BUSINESS DIVISION

Eric R. MacNeill, M.C.I.	—	Manager
Gerald B. Soy	—	Field Officer/Appraisor

SUPPORT STAFF

Ms. Daphne Andrews	—	Secretary to the General Manager
Ms. Nancy M. Lecky	—	Accounting Technician I
Ms. Elizabeth Macneill	—	Secretary
Mrs. Alfreda Moase	—	Receptionist/Cashier/Clerk
Mrs. Elva Myers	—	Secretary

CONSULTANTS TO MANAGEMENT

Consulting Engineer	--	Mr. Norman F. Stewart P. Eng., Be. (Civil), M.E.I.C.

AUDITORS

Coopers & Lybrand, Chartered Accountants, Charlottetown, P.E.I.

May 29, 1989

AUDITOR'S REPORT TO THE BOARD OF DIRECTORS

We have examined the balance sheet of the Prince Edward Island Lending Authority as at March 31, 1989 and the statements of liability - Province of Prince Edward Island, interest income and expenses and operating funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Lending Authority as at March 31, 1989 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

PRINCE EDWARD ISLAND LENDING AUTHORITY

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS

	1989 $	1988 $
CURRENT ASSETS		
Cash	1,368,337	3,385,905
Short-term loans plus interest (Schedule A)	3,193,815	2,990,544
Properties in inventory (note 2)	1,393,465	—
Sundry deposits	800	800
	5,956,417	6,377,249
MORTGAGE LOANS PLUS ACCRUED INTEREST (Schedule B)	49,860,686	49,776,174
	55,817,103	56,153,423

LIABILITIES

CURRENT LIABILITIES		
Payable to Department of Finance	1,972,039	2,342,710
Accrued liabilities	12,841	191
	1,984,880	2,342,901
LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (note 3)	53,832,223	53,810,522
	55,817,103	56,153,423

SIGNED ON BEHALF OF THE BOARD

Peggy M. Cooley
Chairman

Secretary-Treasurer

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF LIABILITY – PROVINCE OF PRINCE EDWARD ISLAND

AS AT MARCH 31, 1989

	1989	1988
	$	$
BALANCE – BEGINNING OF YEAR	53,810,522	49,920,750
Add: Advances from Province	11,485,957	9,649,753
Interest on advances	6,683,777	6,434,968
Bad debts recovered	40,965	653
	72,021,221	66,006,124
Deduct: Payments made to Province	17,912,339	11,772,467
Excess of interest expense over interest income	227,964	308,639
Increase in provision for possible future losses on loans	48,695	114,496
	18,188,998	12,195,602
BALANCE – END OF YEAR	53,832,223	53,810,522

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF INTEREST INCOME AND EXPENSES

FOR THE YEAR ENDED MARCH 31, 1989

	1989 $	1988 $
INTEREST INCOME	6,457,523	6,183,104
INTEREST EXPENSE		
Bank	1,710	56,775
Province of P.E.I.	6,683,777	6,434,968
	6,685,487	6,491,743
EXCESS INTEREST EXPENSE FOR THE YEAR (note 4)	227,964	308,639

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF OPERATING FUNDS

FOR THE YEAR ENDED MARCH 31, 1989

	Budget (Note 5) Appropriation 1989 $	Actual 1989 $	Actual 1988 $
OPERATING GRANT — PROVINCE OF PRINCE EDWARD ISLAND	914,500	903,301	825,878
OPERATING EXPENSES			
Salaries and wage levies	666,900	666,033	636,785
Rent - Office and office equipment	102,400	99,878	94,187
- Automobiles	15,100	15,033	14,497
Travel and field call expenses	15,500	14,142	13,526
Telephone	18,200	16,713	13,792
Professional fees	17,500	22,289	9,100
Directors fees and expenses	14,500	14,500	17,063
Office supplies	12,800	13,093	12,019
Insurance	500	540	500
Legal and collection costs	18,000	10,239	4,810
Repairs and maintenance	1,300	1,169	399
Furniture and equipment	17,300	16,475	980
Postage	4,900	4,866	4,900
Advertising	900	416	253
General expenses	7,000	6,590	2,201
Loan costs	1,700	1,325	866
	914,500	903,301	825,878
EXCESS OPERATING GRANT FOR THE YEAR	—	—	—

PRINCE EDWARD ISLAND LENDING AUTHORITY

SCHEDULES OF SHORT-TERM LOANS AND MORTGAGE LOANS PLUS INTEREST

AS AT MARCH 31, 1989

	Agriculture $	Fisheries & Aqua-culture $	Tourist $	Small Business $	Total 1989 $	Total 1988 $
SCHEDULE A — SHORT-TERM LOANS						
Principal balances					3,970,166	3,947,225
Provision for possible future losses					776,351	956,681
					3,193,815	2,990,544
SCHEDULE B — MORTGAGE LOANS						
Mortgage loans assumed by Lending Authority —						
Principal and interest balance	257,534	—	—	—	257,534	351,926
Accrued interest	6,871	—	—	—	6,871	9,409
	264,405	—	—	—	264,405	361,335
Provision for possible future losses	6,610	—	—	—	6,610	9,033
	257,795	—	—	—	257,795	352,302
Mortgage loans transacted by Lending Authority —						
Principal balances and interest due	17,259,740	6,334,834	16,980,795	8,575,552	49,150,921	49,426,417
Accrued interest	534,119	406,113	885,775	34,767	1,860,774	1,739,995
	17,793,859	6,740,947	17,866,570	8,610,319	51,011,695	51,166,412
Provision for possible future losses	478,285	168,524	446,664	315,331	1,408,804	1,742,540
	17,315,574	6,572,423	17,419,906	8,294,988	49,602,891	49,423,872
	17,573,369	6,572,423	17,419,906	8,294,988	49,860,686	49,776,174

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1989

1. ACCOUNTING POLICIES

Asset valuation

(i) Loans are stated at cost less a provision for possible future losses based on the loss experience of prior years and local economic conditions.

The corporation has been using a provision calculated at 2.5% on the year end balance of the loans.

The Authority has a policy to give consideration to possible future losses on loans arising as a result of changed economic conditions resulting in losses which would materially differ from these provided for under the normal provision calculated at 2.5%.

(ii) Fixed assets are expensed in the accounts of the Authority at the time they are acquired.

Interest income

The corporation does not record interest on those loans which are considered doubtful. Although interest is not recorded in the accounts, the amount is calculated for collection purposes and maintained in a separate account.

2. PROPERTIES IN INVENTORY

The inventory consists of farm and commercial properties taken by way of foreclosures and / or Quit Claim Deeds as a result of borrowers not complying with the terms and conditions of their loans. A provision for anticipated losses of $455,834 is included in the overall provision for mortgage loan losses (schedule B) since the properties in inventory originated as mortgage loans. The properties in inventory will be disposed of through public tender.

3. LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND

The liability to the Province is secured by the following debentures issued by the Authority to the province at varying interest rates and redemption periods. The interest rate established on these debentures is determined by calculating the average of all loans made throughout the year.

	1989		1988	
	Debenture Amount	Term Remaining	Debenture Amount	Term Remaining
%	$		$	
16.75	5,695,759	13 years	5,821,892	14 years
10.25	671,987	10 years	709,774	11 years
10.50	537,166	10 years	566,944	11 years
11.00	265,806	10 years	280,128	11 years
11.00	85,847	10 years	90,472	11 years
10.25	527,182	9 years	562,025	10 years
10.00	386,473	9 years	412,346	10 years
10.38	672,084	8 years	724,611	9 years
13.25	4,131,117	7 years	4,479,310	8 years
12.75	2,363,210	6 years	2,616,881	7 years
11.875	4,000,000	5 years	—	- years
11.875	7,485,957	5 years	—	- years
10.25	96,540	5 years	110,814	6 years
11.00	25,320	5 years	28,983	6 years
10.50	3,138	5 years	3,597	6 years
10.25	9,352,010	4 years	9,649,753	5 years
10.00	167,140	4 years	199,885	5 years
10.25	51,150	4 years	61,107	5 years
10.75	7,873,581	3 years	8,160,003	4 years
10.38	67,863	3 years	86,372	4 years
10.00	6,545,718	2 years	6,823,992	3 years
12.25	6,814,054	1 year	7,104,164	2 years
11.75	—	—	9,183,969	1 year
10.25	—	—	41,372	1 year
11.00	—	—	26,334	1 year
10.50	—	—	21,487	1 year
11.00	—	—	9,739	1 year
Total of debentures	57,819,102		57,775,954	
Accounting adjustment for provision for losses on loans, FEB loans and other sundry items are not included	3,986,879		3,965,432	
	53,832,223		53,810,522	

3. LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (cont'd)

The aggregate principal payment made on the debentures on March 31, 1989 was $17,912,339.

The current and renewable portion of the liability to the Province of Prince Edward Island for the amount due or renewable within one year is $9,332,176 (1988 — $11,442,339).

4. EXCESS INTEREST EXPENSE

The excess interest expense for the year is due in part to a reduction made in the year ended March 31, 1986 in the interest rate charged on those agriculture loans which carry a rate in excess of 14% for 5 years, 15% for 10 years, and 15 1/2% for 20 years. The rate reduction decreased the interest income derived from loans without a corresponding decrease in interest expense which is paid to the Province on its debentures.

The excess interest expense is also due to paid out loans of customers where the corresponding debenture to the Province carrying higher than current interest rates remains in existence. In addition, the Authority's policy not to record interest income on non-performing loans causes excess interest expense.

5. BUDGET APPROPRIATION

The amounts appearing under the budget column were not audited.